

USAWC STRATEGY RESEARCH PROJECT

AN ANALYSIS OF U.S. POLICY CONCERNING THE DISPOSITION OF IRAQI DEBT

by

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This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

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Report Documentation Page			Form Approved OMB No. 0704-0188		
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 03 MAY 2004		2. REPORT TYPE		3. DATES COVERED -	
4. TITLE AND SUBTITLE An Analysis of U.S. Policy Concerning the Disposition of Iraqi Debt				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) Leslie Brehm				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Army War College, Carlisle Barracks, Carlisle, PA, 17013-5050				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT See attached file.					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 27	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

ABSTRACT

AUTHOR: LTC Leslie M. Brehm

TITLE: An Analysis of U.S. Policy Concerning the Disposition of Iraqi Debt

FORMAT: Strategy Research Project

DATE: 18 February 2004 PAGES: 27 CLASSIFICATION: Unclassified

Although Saddam Hussein's ousted regime's outstanding debt obligations are not known for sure, some estimates put his total financial obligations as high as \$383 billion. As the United States leads the restructuring and reconstruction efforts in Iraq, the disposition of this huge debt has become a topic of great concern and debate. The debate centers on whether Hussein's debt should be deemed odious under the Doctrine of Odious Debts, and therefore forgiven. According to the Doctrine of Odious Debts, states have the right to repudiate debts if they are incurred without the consent of the people of the state and if the debt cannot benefit the public in that state, as long as the lender was aware of these two conditions. Although there have been numerous recent examples of dictators or regimes that contracted odious debt, including Mobutu Sese Seko in the Democratic Republic of Congo (the former Zaire), Anastasio Somoza in Nicaragua, and Ferdinand Marcos in the Philippines, in none of these cases did the successor governments receive any form of debt forgiveness. This paper argues that Hussein's debt should be forgiven due to its sheer size and because it meets the three conditions necessary to repudiate the debt under the doctrine. Resolution of this issue has the potential to have a significant impact on the global economy, and more importantly, on U.S. national security. Due to the significant level of international discourse on this issue, and in light of its powerful global influence, it is important for the U.S. to establish a clear and firm policy on the disposition of Iraqi debt. This paper begins by discussing the different types of debt a sovereign government can incur. It then chronicles the history of the Doctrine of Odious Debts and provides recent examples of illegitimate leaders and regimes that contracted huge amounts of odious debt before being ousted. Next, it reviews U.S. policy concerning identifying and disposing of the debt incurred by Saddam Hussein, and discusses current policy implications to our national security. Lastly, it evaluates alternatives to current U.S. policy with respect to dealing with Hussein's debt, and looks to the future to provide a recommendation for the U.S. to take the lead globally to assist the Iraqi people in repudiating Hussein's debt under the odious debts doctrine.

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AN ANALYSIS OF U.S. POLICY CONCERNING THE DISPOSITION OF IRAQI DEBT

Current estimates of Saddam Hussein's ousted regime's outstanding debt obligations vary widely, but according to the Center for Strategic and International Studies, the debt could be as high as \$383 billion.¹ As the United States leads the restructuring and reconstruction efforts in Iraq, the disposition of this huge debt has become a topic of great concern and debate. The debate centers on whether Saddam Hussein's debt should be deemed odious under the Doctrine of Odious Debts, and therefore forgiven because it did not serve any benefit for the citizens of Iraq. Few question the illegitimacy of Hussein's regime and most believe he and his regime contracted much of the debt over the past several decades to finance war and oppress Iraqi citizens. However, several of Iraq's biggest creditor nations, including Russia, France and Germany, oppose complete debt forgiveness because they have much to lose, as they have the most amount of money at stake. Although these countries have agreed to forgive some of the official debt owed by Iraq, the magnitude and terms of the eventual debt relief is not clear. At home, U.S. policy in dealing with Iraqi debt has shifted from a hard stand on complete debt forgiveness to a less understood policy of debt relief or restructuring handled through the Paris Club, an informal group of creditor governments from major industrialized countries.²

Due to the significant level of international discourse on this issue, and in light of the U.S. leadership role in the reestablishment of a viable post-war Iraqi economy, it is extremely important for the U.S. to establish a firm and clear policy on the disposition of Iraqi debt for future situations involving similar cases. Moreover, this issue has relevance to the U.S. goals of respect for human dignity and economic freedom outlined in the National Security Strategy. Clearly, the Iraqi population's human dignity may be compromised if the international community forces repayment of debt contracted by the ousted regime. The debt issue also warrants attention as it "may be the most important [issue] determining Iraq's economic future."³ It can and likely will have a great impact not only on a prompt economic recovery in Iraq but on the overall economic stability in the Middle East and the World, which could have serious U.S. national security implications.

This paper begins by discussing the different types of debt a sovereign government can incur. It then chronicles the history of the Doctrine of Odious Debts and provides recent examples of illegitimate leaders and regimes that contracted huge amounts of odious debt before being ousted. Next, it reviews U.S. policy concerning identifying and disposing of the debt incurred by Saddam Hussein, and discusses current policy implications to our national security. Lastly, it evaluates alternatives to current U.S. policy with respect to dealing with

Hussein's debt, and looks to the future to provide a recommendation for the U.S. to take the lead globally to assist the Iraqi people in repudiating Hussein's debt under the odious debts doctrine.

TYPES OF DEBT

Before addressing the Doctrine of Odious Debts and U.S. policy concerning the disposition of Iraqi debt, it is important to first define the various types of debt that can contribute to a country's total financial obligations. A country's debt can be categorized in numerous ways and measured by many differing means; however, the first division one should make is to differentiate between external and domestic debt. External debt is debt owed by both public and private entities to non-residents of a particular country, while domestic debt is debt owed to residents within the country. External debt can be further sub-divided for additional clarity. Generally, one must consider three categories of external debt in determining any country's outstanding financial obligations: sovereign, commercial, and reparations.

Sovereign debt includes debt agreements signed by the governments of debtor countries or private debts guaranteed by the public sector. Sovereign debt can be sub-categorized into Paris Club and non-Paris Club debt. The Paris Club is an informal group of industrialized creditor nations that seeks to find solutions to debtor country payment difficulties, either by rescheduling debt payments or by forgiving a certain amount of debtor country obligations.⁴ Debt owed by sovereign governments to countries who are not members of the Paris club is categorized as non-Paris Club debt.

Commercial debt is often referred to as London Debt, and is debt that results from letters of credit and loans between commercial banks. Functioning much like the Paris Club, the London Club is a group of commercial banks that work together to negotiate the restructuring of their claims against debtor countries.

Reparations are debts that are incurred as a result of conducting a hostile act against another country, and are generally brought to light as claims submitted to compensate for damage or injury sustained during the conduct of such act. Reparation claims are filed with the United Nations Compensation Commission (UNCC) which was set up by the United Nations (UN) Security Council.

For the purpose of this paper, my intent is to only address U.S. policy concerning the disposition of Iraq's external debt, including its outstanding sovereign, commercial and war reparation financial obligations.

BACKGROUND ON ODIIOUS DEBT DOCTRINE AND EXAMPLES

The Doctrine of Odious Debts originated late in the 19th century at the conclusion of the Spanish-American War when the U.S. seized control of Cuba from Spain. U.S. leaders did not accept Cuba's debt contracted during Spanish colonization, insisting that the debt belonged to the regime and not to the territory, as the Spaniards used most of the debt to counter Cuban resistance to Spanish rule.⁵ Alexander Sack, an early 20th century Russian legal scholar, coined the term "odious debts" several decades after the conclusion of the Spanish-American War. In his words, "If a despotic power incurs a debt not for the needs or in the interest of the state, but to strengthen its despotic regime, this debt is odious for the population of the state. This debt is not an obligation for the nation; it is a regime's debt, a personal debt of the power that has incurred it, and consequently it falls with the fall of this power."⁶ Over time the actual doctrine developed into three fairly straight forward conditions which must be met in order for a state to repudiate debt. According to Patricia Adams, a present-day scholar on the subject, "under the doctrine, three conditions must exist before a state can repudiate a debt:

- The debt must have been incurred without the consent of the people of the state.
- The debt can not have benefited the public in that state, and
- The lender must have been aware of these two conditions."⁷

Although the odious debts doctrine is certainly morally sound and on the surface seems relatively easy to enact, it has seen little use since its origin over a century ago. According to Harvard economists Michael Kremer and Seema Jayachandran, "this doctrine has gained little momentum within the international law community and countries are held responsible for repaying illegitimate debt under the international system's current norm."⁸

Examples: In spite of the fact that the doctrine has not seen much use, there are numerous examples of regimes and/or dictators that have contracted odious debt. In addition to Saddam Hussein in Iraq, three recent and fairly compelling examples include Mobutu Sese Seko in the Democratic Republic of Congo (the former Zaire), Anastasio Somoza in Nicaragua, and Ferdinand Marcos in the Philippines.

The debt accumulated by President Mobutu Sese Seko in the Democratic Republic of Congo (DRC) provides an excellent example of a dictator acting in an odious manner. During Mobutu's tenure as President of the DRC, the Freedom House ranked the country as "not free" and highly corrupt.⁹ Under Mobutu's dictatorship from 1965 to 1997, the DRC accumulated sovereign debt approaching \$10 billion, much of which he used to finance efforts to remain in

power and to expand his personal wealth. Mobutu routinely contracted debt, including loans from the World Bank and the International Monetary Fund (IMF), to finance development projects intended to enhance infrastructure and improve the well-being of the DRC's population. One might conclude that the World Bank and the IMF were asleep at the wheel as much of this debt never benefited the people. Unfortunately, many of Mobutu's debt-financed development projects never came to fruition. Rather, much of the funding earmarked for the DRC's so-called "white elephant" projects ultimately financed Mobutu regime activities having nothing to do with infrastructure development. Interestingly, Mobutu's personal fortune estimated at \$4 billion in 1997 equaled nearly half of the DRC's outstanding debt at that time. By the time Mobutu fled the country in 1997, the DRC had not serviced any debt for six years and had the distinction of being the second poorest country in the world.¹⁰

Similarly, former Presidents Anastasio Somoza of Nicaragua and Ferdinand Marcos of the Philippines both contracted a significant amount of odious debt while in power. Somoza accumulated sovereign debt totaling \$1.6 billion while amassing an estimated \$500 million in personal wealth prior to losing power to the Sandinistas in 1979. Although Somoza's odious acts were not as pronounced as Mobutu's, the Nicaraguan citizens realized little benefit from the debt contracted by the Somoza regime. Somoza channeled a share of much of the reconstruction money that flowed into the country after the 1972 Managua earthquake into personal accounts.¹¹ Ferdinand Marcos did much of the same to the Philippine populace, as evidenced by the huge amount of external debt he accrued prior to losing power. According to Kremer and Jayachandran, "...when Marcos lost power in 1986, the Philippines owed \$28 billion to foreign creditors, and Marcos' personal wealth was estimated at \$10 billion."¹²

Arguably, these three historical examples provide clear evidence of odious activities by despotic regimes, mostly in the form of personal wealth gained by the illegitimate rulers. However, in none of these cases did the successor governments receive any form of relief under the odious debts doctrine. Although these case examples represent varying circumstances, the prevailing reason why successor regimes do not repudiate debt contracted for illegitimate reasons is because of the fear that defaulting on the debt would alienate them from potential Western creditors which would make it difficult to attract foreign investment.¹³

THE CASE FOR IRAQ

Why then, should we expect the trend to change in how the international community addresses the debt left behind by the Hussein regime in Iraq or others? There are two primary reasons why we see renewed international interest in applying the odious debt doctrine to this

case. The first is the sheer amount of debt. Although Iraq's exact level of debt is not certain, the most accurate and comprehensive estimate is \$383 billion, including \$127 billion in Paris Club and non-Paris Club loans, \$199 billion in war reparations and \$57 billion in commercial debt and foreign contracts.¹⁴ The following illustration provides a summary of Iraq's estimated financial obligations depicted in the aforementioned categories:

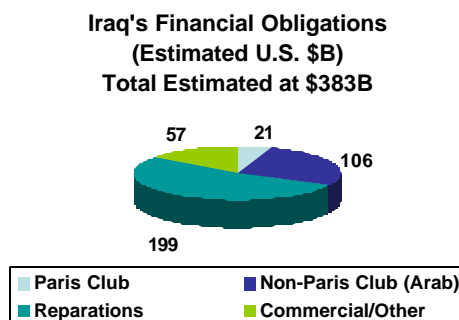


FIGURE 1 - IRAQ'S ESTIMATED FINANCIAL OBLIGATIONS

Frankly, Hussein's debt is staggering when compared to the debts contracted by Mobutu, Somoza and Marcos, even if we limit the comparison to debt owed to Paris Club members. Hussein contracted enormous debt for several decades to finance wars with Iran and Kuwait, to suppress the Iraqi people and to build his personal wealth. Robert Looney of the Center for Contemporary Conflict points out that Iraq's total financial obligations amount to around 15 times its annual Gross Domestic Product (GDP). Using per capita debt as a measure, Looney states that Iraq's estimated per capita debt of nearly \$17,000 "...is about 10 times as great as Argentina's at the time of that country's economic meltdown in 2001."¹⁵ Obviously, when viewed in this manner, the debt contracted by Hussein is quite sobering.

Another way to measure the severity of Iraq's debt is to determine the level of debt at which it would be able to service the interest. Former U.S. Treasury official Edwin M. Truman has calculated that "based on \$20 billion in projected export earnings, Iraq could service the interest on \$80 billion in debt."¹⁶ Other international norms state that a country's maximum debt to export ratio should not exceed 150 percent, which would limit Iraq's debt to \$35 billion. The bottom line is that the level of Iraq's outstanding debt, even when balanced against its projected oil export revenue generating capacity, constitutes a serious debt and economic crisis. Short of

a high level of cancellation, this debt will undoubtedly prevent any level of economic stabilization and measurable growth not only in Iraq, but in the entire Middle Eastern region.

The second reason for renewed interest in applying the odious debts doctrine in disposing of Iraq's debt is because it meets the three conditions necessary to repudiate the debt under the doctrine, at least for the majority of the debt. Most observers accept that Hussein contracted a large amount of the debt to finance war without the consent of the people, that the loans did not benefit the state, and that the lenders knew the purpose for which Hussein sought the loans. The outstanding debt known to support military buildup includes \$37 billion owed to the Gulf States, \$4 billion to France and \$9 billion to Russia.¹⁷ Another \$47 billion of the debt is linked to accrued interest on loans that Hussein failed to service over the past three decades, loans that Hussein didn't use to build infrastructure or improve the general well-being of the Iraqi people. As stated in the UN/World Bank Joint Iraq Needs Assessment published in October 2003, "Since the mid-1980's, the ruling regime has neglected public infrastructure and investment, and there is a pervasive sense of decay, neglect, and degradation throughout the economy which has been exacerbated by damage during the conflicts to buildings, pipelines, communication equipment, and transportation links."¹⁸ Hussein's brutal nature, self-serving tactics and the odious manner in which he wasted billions of dollars was recently echoed by President Bush in his October 11, 2003 radio address on Iraq. He stated, "For three decades, Iraq's economy served the interest only of its dictator and his regime. Saddam Hussein built palaces and monuments to himself, while Iraq's infrastructure crumbled. He built up a massive war machine while neglecting the basic needs of his own people."¹⁹

So, Saddam Hussein's debt is overwhelmingly substantial and it was clearly contracted for odious purposes, but does that mean that the new Iraqi government can succeed in convincing creditor countries to forgive the debt? While many believe the Iraqi people can make a case under the doctrine of odious debts to repudiate much of Hussein's debt, U.S. policy will arguably play a pivotal role in enabling them to succeed.

CURRENT U.S. POLICY

As noted in the introduction, U.S. policy concerning the disposition of Iraq's debt has shifted from total debt forgiveness to a softer policy calling for an unspecified level of debt relief or restructuring. But there is a fair amount of debate concerning the handling of Iraq's debt that continues to exist in political channels, indicating that U.S. policy is not concrete. For the time being the Bush administration's policy centers on seeking some level of debt relief and restructuring handled by the Paris Club. In carrying out this policy, Bush's team has been

mindful to use carefully crafted diplomatic measures to address the debt relief issue with major Iraqi creditor countries such as Russia, Germany and France. In a late September press briefing, White House Press Secretary Scott McClellan stated that "We believe [debt relief] is an important step in moving forward on building a better future for the Iraqi people," which was a prelude to President Bush naming former Secretary of State James Baker as his personal envoy to help persuade major creditor countries to forgive Iraqi debt.²⁰ Former Secretary Baker's meetings with the heads of state in Germany, France and Russia have resulted in varying degrees of commitments to reduce Iraqi debt. Although the talks focused only on sovereign or Paris Club debt and exact levels of debt forgiveness have not been discussed, the Bush administration still views Baker's trips as successful. In the words of Washington Post Foreign Service writer Peter Baker, "The results of Baker's European trip heartened Bush administration officials because the United States is now working together with all three major opponents of the U.S.-led invasion of Iraq on a major aspect of its reconstruction."²¹

The Administration has also sought to gain some "breathing room" in resolving the debt issue. In a speech that addressed Iraq's economic and fiscal issues, Under Secretary of the Treasury for International Affairs John B. Taylor stated that the U.S. and its G-8 partners agreed "that given Iraq's precarious financial situation, creditors should not expect Iraq to make any payments on its debt for at least the next eighteen months."²² This policy compliments the implementation of UN Security Council Resolution 1483 adopted 22 May 2003, which temporarily immunizes oil sales in an effort to keep creditors at bay. In accordance with the resolution, petroleum, petroleum products and natural gas originating in Iraq shall be immune from attachment or garnishment until 31 December 2007.²³

Meanwhile, there is a fair amount of discontent with current Iraqi debt policy that continues to echo in Congress. As Business Week journalist Stan Crock points out, "The issue is a flashpoint in Congress, where some are incensed at pouring billions in taxpayer funds into Iraq while nations that opposed the U.S. invasion get debts paid."²⁴ In apparent opposition to the Administration's relative soft policy on Iraqi debt, Representatives Carolyn Maloney (D-N.Y.) and Jim Leach (R-Iowa) introduced the bipartisan 'Iraqi Freedom From Debt Act' in the House of Representatives this past June. The bill calls for "the cancellation of loans made to Iraq by multilateral financial institutions," and includes a "Sense of the Congress" provision that asks the President to urge France, Russia, and all other Iraqi creditors to "cancel or radically reduce all debt owed by Iraq."²⁵ Clearly, this bill could have serious implications to the future willingness of the World Bank, the IMF and other commercial lending institutions to provide aid to countries in need, but the overwhelmingly odious nature of Iraq's debt remains at the forefront. According to

Hans Nichols, a writer for *The Hill*, a non-partisan weekly newspaper covering Congress, Representative Maloney told his newspaper, "What are we going to do? Rebuild a country so that they can pay back odious debt to countries like France and Russia?"²⁶

Although the Bush administration's efforts to reduce Iraq's debt burden have produced some favorable results, the continuing political dialogue indicates that many feel the efforts must be much broader and more aggressive, making certain that we address all debts which will impact Iraq's ability to jump start its economy. Proponents of a broader policy advocate the necessity to holistically address all of Iraq's financial burdens which, by far, exceed the debt owed to Paris Club members. As Center for Strategic and International Studies (CSIS) analyst Bathsheba Crocker states, "Initial reports from Secretary Baker's trip seem positive, but the United States must pursue a much more radical strategy in order to fully address Iraq's financial obligations. That strategy must look beyond traditional debt restructuring mechanisms, and must include reparations Iraq owes from the Gulf War."²⁷

Regardless of which camp you agree with, one thing is given: if outlays necessary to service debt continue to exceed revenues generated through exports, the new Iraqi government will not have funds to run the country, which will most certainly impact Iraq's ability to establish a stable democracy, and which will ultimately have serious implications to U.S. national security.

U.S. NATIONAL SECURITY IMPLICATIONS

U.S. policy concerning the disposition of Iraq's debt has serious implications to national security as the issue has relevance to two of the three core U.S. national interests: promotion of values and economic prosperity. As the U.S. National Security Strategy (NSS) provides the strategy, goals and objectives to achieve national security, it is important to frame the debt issue in the context of the NSS. Two U.S. goals outlined in the NSS have significant relevance to the debt relief issue in Iraq. The first is the goal of respect for human dignity. To achieve this goal, President Bush establishes a policy objective in the NSS that "the United States will champion aspirations for human dignity."²⁸ He further articulates that "America must stand firmly for the nonnegotiable demands of human dignity: the rule of law; limits on the absolute power of the state; free speech; freedom of worship; equal justice; respect for women; religious and ethnic tolerance; and respect for private property."²⁹ Clearly Saddam Hussein violated many of these principles by leading a tyrannical regime and by creating an enormous debt burden for personal reasons and not in the best interest of the Iraqi people. Whether the citizens of Iraq should be required to service the debts contracted by Hussein certainly presents a moral dilemma. As I have already established, Iraq's debt burden is arguably so overwhelming that it will not be

humanly possibly for the Iraqi citizens to ever liquidate it. Moreover, even if the debt were manageable, is it morally sound for the world to require the citizens to repay the countries that helped Saddam Hussein oppress them? In terms of direct impact on national security, forcing repayment of Hussein's loans might well send a signal to the world that it is okay to lend to "axis of evil" type regimes, so we will likely continue to see lending to oppressive dictators if we take this route. Unscrupulous lenders will continue to make loans to bad regimes because they know they will get paid regardless of whether the regime remains in power. However, potential lenders may think twice if they know the debt will have to undergo an accountability test which may limit repayment if the debtor regime loses power.³⁰

The second goal in the NSS that we must consider in analyzing the debt relief issue in Iraq is the goal for political and economic freedom. Our policy as stated in the NSS is clear: "We will promote economic growth and economic freedom beyond America's Shores."³¹ It could conceivably take several generations for Iraq to gain the freedom to engage in world markets if their huge debt burden is not forgiven. Economists Nile Gardiner of the Center for International Trade and Economics and Marc Miles, Director of the Center for International Trade and Economics, make a case that Iraq's huge debt burden stands in the way of it becoming an "economic powerhouse in the Middle East." In their argument, Gardner and Niles point out that "Establishing fiscal and monetary stability and a stable currency will be virtually impossible if Iraq has no realistic prospect of paying down the debt to manageable levels in the near future With its huge debt burden, Iraq will have extreme difficulty in attracting substantial foreign direct investment, and this will further limit economic growth."³² We should also remember the impact of the huge debt burden put on Germany in the form of World War I reparations. Although the reparations were never paid in full, Germany's economy suffered considerably as it tried to get out from under its heavy debt burden. Germany's weak economy ultimately set the stage for the rise of the Nazi government and the beginning of World War II.³³ As economic growth in Iraq is critical to maintaining economic stability in the Middle East and throughout the world, it is clearly in our interest to ensure success. As President Bush points out in the NSS, "A strong world economy enhances our national security by advancing prosperity and freedom in the rest of the world."³⁴

The outcome of the disposition of Iraqi debt will likely have world-wide implications for the future. As I have discussed in this section, the disposition of Hussein's debt will set the tone for world acceptance of illegitimate regimes, and it will undoubtedly have a substantial impact on the world economy. Future potentially oppressive country leaders will use Iraq as a test case and may choose a course based on the historical treatment of Iraqi debt.

ALTERNATIVES TO CURRENT U.S. POLICY

In light of the implications to national security in not achieving the aforementioned goals prescribed in the NSS, the U.S. policy concerning the debt crisis in Iraq warrants close attention. Although current U.S. policy recognizes the need to restructure a large portion of the debt left behind by Hussein, many feel it does not go far enough to ensure the new Iraq gets a good start economically. Looney further argues that regardless of how much resistance Iraq's creditors create; there are only three courses of action available to reduce the debt. He states that "the countries debt will have to be: (a) forgiven – in all or part, an application of the odious debt doctrine; (b) radically restructured to string it out over many years after an initial moratorium period on servicing; or (c) eased by eclectic solutions – contract cancellation, debt equity swaps, partial privatizations, etc." ³⁵

One problem with the second two courses of action is that they only prolong the debt issue for the Iraqi citizens. The fact of the matter is that the new Iraqi government will need substantial amounts of revenue to finance necessary government functions and reconstruction needs. As depicted on the following illustration from the United Nations/World Bank Joint Iraq Needs Assessment, Iraq's cumulative reconstruction needs thru 2007 total nearly \$36 billion. ³⁶

UN/World Bank Cumulative Iraq Reconstruction Needs by Sector on a Commitment Basis ¹			
2004, 2005-2007 (in US\$ millions)			
Sector	2004	2005- 2007	TOTAL
<i>Local Administration, Rule of Law & Civil Society</i>	101	212	313
<i>Health, Education, Employment</i>	1,880	5,310	7,190
Education: Primary, Secondary & Higher	1,005	3,800	4,805
Health	500	1,100	1,600
Employment	375	410	785
<i>Infrastructure</i>	5,836	18,368	24,204
Transport & Telecommunications	1,043	2,366	3,409
Water, Sanitation, Solid Waste	1,881	4,961	6,842
Electricity	2,377	9,745	12,122
Urban Management	110	303	413
Housing & Land Management	425	993	1,418
<i>Agriculture and Water Resources</i>	1,230	1,797	3,027
Investment in Agriculture	1,230	1,797	3,027
<i>Private Sector Development</i>	145	476	621
State-Owned Enterprises	30	170	200
Financial Sector	71	10	81
Investment Climate	44	296	340
<i>Mine Action</i>	80	154	234
Total	9,272	26,317	35,589

FIGURE 2 - IRAQ'S RECONSTRUCTION NEEDS

As noted previously, Iraq will not have sufficient revenue if it is required to service the outrageous financial obligations incurred by Saddam Hussein. If the citizens of Iraq cannot resource their reconstruction needs internally, the international community will have to foot the bill or risk setting conditions for another illegitimate regime to take control.

Another problem with Looney's second two courses of action is that any action short of debt forgiveness does not address the moral issue of requiring the citizens of Iraq to repay those that helped Hussein oppress them. This issue really gets to the crux of the odious debts doctrine. Given the severity of Hussein's criminal acts and years of repression against the people of Iraq, acts and repression financed on large part by contracting debt, is it morally acceptable for the free people of the world to demand payment? Many think not.

On the other hand, some argue that debt forgiveness is susceptible to the principle of moral hazard and could jeopardize Iraq's ability to obtain credit in the future. Jeff Faux, the president of the Economic Policy Institute, defines moral hazard as "the notion that if people are allowed to avoid the consequences of their economic mistakes, they will continue to make them."³⁷ This is a hard argument to make, however, in a case such as Iraq where there is a regime change. The new government and the people of Iraq didn't make the mistakes, Hussein did. In Iraq, as long as the new government remains committed to reform, cancellation of Iraqi debt should result in the availability of additional dollars to bolster its economy.³⁸

RECOMMENDATION

Clearly, wavering U.S. policy concerning the disposition of Iraq's odious debt sends an unclear message to the world. Protecting U.S. national security interests requires the appropriate use of all elements of national power, and in light of its powerful global influence, it is incumbent on the U.S. to establish a firm leadership role in setting international policy concerning the handling of Iraq's debts. For this reason, U.S. policy concerning the disposition of the debt contracted by the Hussein regime in Iraq should put more emphasis on debt forgiveness under the odious debts doctrine and less emphasis on debt restructuring. The Bush administration should work closely with the new Iraqi government to assist them in repudiating Hussein's debt. More specifically, the administration should, as economists Nile Gardiner and Marc Miles suggest, "formally call upon the European powers (primarily Russia, Germany and France) and Arab nations (including the Gulf states and Egypt) to forgive the huge debts owed by the Iraqi government."³⁹ Even if Iraq's combined financial obligations turn out to be overstated, the fact remains that minimum projections still amount to unsustainable debt. During a speech to the International Donor' Conference for the Reconstruction of Iraq,

International Monetary Fund (IMF) Managing Director Horst Kohler stated, "Absent substantial debt relief, [Iraq] has no prospect of restoring its creditworthiness and of regaining access to private capital to finance future growth."⁴⁰

Pursuing a course of action to invoke the odious debts doctrine and cancel Iraq's debt will send several clear messages to the international community. First, it will reestablish in recent history a precedent for the cancellation of odious debts. Second, in setting this precedent, it will put future creditors on notice that lending to oppressive regimes will not occur without consequence. Third, this course of action will protect the human dignity of the Iraqi population by not forcing them to repay their oppressor's debt. And finally, forgiving Hussein's debt burden will provide the jump start Iraq needs to move forward quickly with restructuring and economic growth. Iraq's debt crisis provides the U.S. the perfect opportunity to put aside political fears and do the right thing for Iraq by championing debt forgiveness. Moreover, firm U.S. policy concerning the disposition of Hussein's odious debts will guarantee protection of key U.S. national interests in the Middle Eastern Region. As stated in an Iraqi economic overview published by Countrywatch in April 2003, "If political and economic freedom can be shown to work in Iraq, the potential impact on the rest of the region is truly hard to fathom. Pressure for regime liberalization in the rest of the region will grow steadily."⁴¹

WORD COUNT = 4954

ENDNOTES

¹ "Iraq's Odious Debts," *The Wall Street Journal*, 30 April 2003, sec. A, p. 16: [database online]; available from ProQuest. accessed 9 October 2003.

² David Mulford and Michael Monderer. "Iraqi Debt, Like War, Divides the West," *The Financial Times, UK*, 22 June 2003; available from <<http://www.odiousdebts.org/odiousdebts/print.cfm?ContentID=7728>>; Internet; accessed 9 September 2003.

³ Alan Murray, "U.S. Can't Avoid Messy Negotiations Over Iraq's Debt," *The Wall Street Journal*, 15 April 2003, sec. A, p. 4: [database online]; available from ProQuest; accessed 14 October 2003.

⁴ Paris Club presentation, available from <<http://clubparis.org/en/presentation.php?>>; Internet; accessed 17 October 2003.

⁵ Patricia Adams, *Odious Debts: Loose Lending, Corruption, and the Third World's Environmental Legacy* (Toronto: Earthscan Canada, 1991), 162-164.

⁶ Ibid., 165.

⁷ Patricia Adams. "Debt Forgiveness, Iraqis Should Not Have to Pay Back International Loans Which Allowed Saddam Hussein to Finance Oppression and Other Objectionable Pursuits," *National Post, Canada*, 26 June 2003, available from <<http://www.odiousdebts.org/odiousdebts/print.cfm?ContentID=7759>>; Internet; accessed 9 September 2003.

⁸ Michael Kremer and Seema Jayachandran, "Odious Debt," *The Brookings Institution Policy Brief #103* (July 2002): 2.

⁹ Nancy Birdsall and John Williamson, *Delivering on Debt Relief, From IMF Gold to a New Aid Architecture* (Washington D.C.: Center for Global Development and the Institute for International Economics, 2002), 125.

¹⁰ Ibid, 126-128.

¹¹ Ibid, 134.

¹² Kremer and Jayachandran, 2.

¹³ Ibid., 2-3.

¹⁴ Nile Gardiner and Marc Miles, "Forgive the Iraqi Debt," *The Heritage Foundation Executive Memorandum #871*, 30 April 2003, available from <<http://www.heritage.org/Research/TradeandForeignaid/em871.cfm>>; Internet; accessed 17 October 2003.

¹⁵ Robert Looney, "Bean Counting in Baghdad: Debt, Reparations, Reconstruction, and Resources," *Center for Contemporary Conflict Strategic Insight*, 2 June 2003; available from <<http://www.ccc.nps.navy.mil/rsepResources/si/june03/middleEast.asp>>; Internet; accessed 11 October 2003.

¹⁶ Stan Crock, "Iraqi Debt: Fast-track the Restructuring the Staggering Load Must be Lightened, and Quickly, to Ensure a Recovery," *Business Week*, 13 October 2003, 36. [database online]; available from ProQuest; accessed 14 October 2003.

¹⁷ Looney, 2.

¹⁸ United Nations Development Group and the World Bank Group, *United Nations/World Bank Joint Iraq Needs Assessment* (New York: The United Nations, October 2003), 4.

¹⁹ George W. Bush, "President's Radio Address on Iraq," 11 October 2003; available from <<http://www.state.gov/p/nea/rls/rm/25148pf.htm>>; Internet, accessed 14 October 2003.

²⁰ Scott McClellan, "Press Briefing by Scott McClellan," 25 September 2003; available from <<http://www.whitehouse.gov/news/releases/2003/09/20030925-7.html#10>>; Internet, accessed 14 October 2003.

²¹ Peter Baker, "In Reversal, Russia Agrees to Discuss Debt Relief for Iraq", *The Washington Post*, 19 December 2003, sec. A, p.3.

²² John B. Taylor, "Reconstruction in Iraq: Economic and Financial Issues," 4 June 2003; available from <<http://www.treas.gov/press/releases/js452.htm>>; Internet, accessed 14 October 2003.

²³ United Nations Security Council, *United Nations Security Council Resolution 1483 (2003)* (New York: The United Nations, May 2003), 6.

²⁴ Crock, 36.

²⁵ U.S. House. 108th Congress, 1st Session. H.R. 2482, *Iraqi Freedom From Debt Act*, 16 June 2003, available from <<http://thomas.loc.gov/cgi-in/query/D?c108:1:./temp/~c108KQuwCL:>> Internet, accessed 9 October 2003.

²⁶ Hans Nichols, "Debt-Relief Proposal for Iraq Receives a Frosty Reception", *The Hill*, 30 September 2003, p. 4 (802 words) [database on-line]; available from Lexis-Nexis; accessed 14 October 2003.

²⁷ Bathsheba Crocker, "Four Hazard Points Secretary Baker Must Address On Iraq's Debt," *Center for Strategic and International Studies Analysis* (December 2003), quoted in Center for Strategic and International Studies News Release, 18 December 2003.

²⁸ George W. Bush, *The National Security Strategy of the United States of America* (Washington, D.C.: The White House, September 2002), 1.

²⁹ Ibid. 3.

³⁰ Adams, "Debt Forgiveness."

³¹ Bush, *The National Security Strategy of the United States of America*, 17.

³² Gardiner and Miles.

³³ Lex Rieffel, *Restructuring Sovereign Debt: The Case For Ad Hoc Machinery* (Washington, D.C.: The Brookings Institute, 2003), 12.

³⁴ Bush, *The National Security Strategy of the United States of America*, 17.

³⁵ Looney, 4.

³⁶ United Nations Development Group and the World Bank Group, 55.

³⁷ Jeff Faux, "Debt: Just Forget It," *Economic Policy Institute Viewpoints*, 7 December 2002, available from <http://www.epinet.org/content.cfm/webfeatures_viewpoints_debt>; Internet; accessed 9 October 2003.

³⁸ David Malin Roodman, "Still Waiting for the Jubilee: Pragmatic Solutions for the Third World Debt Crisis," *Worldwatch Paper #155* (April 2001), 64.

³⁹ Gardiner and Miles.

⁴⁰ Horst Kohler, "The IMF Stands Ready to Help Iraq," Statement to the International Donors' Conference for the Reconstruction of Iraq, 24 October 2003, available from <<http://www.imf.org/external/np/dm/2003/102403.htm>>; Internet, accessed 3 November 2003.

⁴¹ Countrywatch, *Iraqi Economic Analysis*, April 2003, available from <http://countrywatch.Com/cw_print.asp?>>; Internet, accessed 6 November 2003.

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